



STATE OF NEW JERSEY

Board of Public Utilities

Two Gateway Center

Newark, NJ 07102

www.bpu.state.nj.us

WATER

IN THE MATTER OF THE PETITION
OF SOUTH JERSEY WATER SUPPLY
COMPANY, INC. FOR AN INCREASE
IN RATES FOR WATER SERVICE)

ORDER APPROVING
STIPULATION/PHASE II PROCEEDING

BPU DOCKET. NO. WRO3120979
OAL DOCKET NO. PUCRL00199-2004S

(SERVICE LIST ATTACHED)

BY THE BOARD

Procedural History

On December 3, 2003, South Jersey Water Supply Company, Inc., (Petitioner or Company) filed a petition with the Board of Public Utilities (Board) seeking approval of an increase in rates for water service, pursuant to N.J.S.A. 48:2-21 and N.J.A.C. 14:1-5.12.

Petitioner serves approximately 2,320 customers in Harrison Township, Gloucester County, New Jersey. The Company's initial rate request sought to increase revenues by \$1,052,378 or 122.05%. The Company subsequently updated its test year period which resulted in an amendment to its revenue increase downward to \$589,258, or 49.06%. This adjustment was due to a revision to the growth in water sales projection from the initial submission. The Company's filing sought rate relief to recover increased expenditures for construction projects and for increased operating expenses. The driving factor behind the Company's filing, however, was a March 4, 2004 stipulation between the New Jersey Department of Environmental Protection and the Company (DEP stipulation) that required the Company to dramatically reduce its reliance on groundwater as a principal source of supply and, instead, purchase water from the New Jersey-American Water Company, Inc., (NJAW). The DEP stipulation effectively required Petitioner to purchase some 67% of its water supply from NJAW effective January 1, 2006.

Notice of the Company's filing and of the public hearing conducted by ALJ Douglas H. Hurd was accomplished in accordance with the provisions of N.J.A.C. 14:1-5.12. The notice advised customers of the full extent of the Company's revised rate request and that a major component of the rate request related to the purchase of water from NJAW would not become effective until 2006. A public hearing was held on April 27, 2004 at the Harrison Township Municipal Building. One member of the public was in attendance. His testimony recognized the need for the rate increase requested by the Company and questioned whether the State of New Jersey has a policy concerning increasing rates for water used for irrigation purposes. No one sought intervenor or participant status in this proceeding.

After extensive settlement discussions, the Parties (the Company, the Ratepayer Advocate and Board Staff) reached agreement (Phase I Stipulation) to a Phase I rate increase of \$64,615, representing a 6.80% increase over total Company revenues. The Board issued an Order adopting the Phase I Stipulation of the Parties on June 24, 2005. As part of the Phase I Stipulation, the Parties agreed to a Phase II proceeding for the purpose of reviewing several issues associated with the Company's need and cost of the water purchased in compliance with the DEP Stipulation. Specifically, the Phase II proceeding was designed to address future water supply costs to be incurred, other limited rate base and expenses items and to investigate the establishment of a Purchased Water Adjustment Clause (PWAC) by the Company to recover future purchased water costs.

In accordance with the provisions of the Phase I Stipulation, on September 21, 2005, the Company served its Phase II exhibits upon the Parties. On November 17, 2005, notice of the Phase II filing was served, via certified mail, upon the Clerk of Harrison Township, the Clerk of the Gloucester County Freeholder Board, the Ratepayer Advocate, the Office of Administrative Law (OAL) and the Division of Law & Public Safety. Customers were provided notice of the filing through a Notice of Filing published in the Gloucester County Times on November 20, 2005. The Company requested an overall Phase II revenue requirement increase of \$352,425 or 29.65% above current rates. The combined Phase I increase of \$64,615 approved by the Board and the requested Phase II increase of \$352,425 amounted to an overall increase of \$417,040.

Following completion of discovery, the Parties met at the Board's Newark office on November 17, 2005, for settlement negotiations. Settlement discussions continued on November 22, December 12 and December 14, 2005. As a result of the review and analysis of the Phase II exhibits, and discovery, and the negotiation conferences among the Parties, agreement was reached and memorialized in a Phase II Stipulation (Stipulation).

This Stipulation reflects the increased purchased water costs the Company will incur commencing in January 2006 for water purchased from NJAW in compliance with the DEP Stipulation. The Stipulation provides for a Phase II revenue increase in the amount of \$242,420, or an overall percentage increase of 24%. (See Schedule A attached hereto).

II. Stipulation

As more fully set forth in the attached Stipulation, the Parties agreed that¹:

A. Capital Structure, Rate of Return and Rate Base

- 1 The capital structure reflects actual capitalization ratios at June 30, 2005, along with actual debt cost rates at June 30, 2005, with an equity return at 9.75%. The overall rate of return is 9.43%. (Settlement paragraph 1).
- 2 The rate base reflects actual plant in service at June 30, 2005 in the amount of \$2,354,536, with a depreciation reserve at December 31, 2005². Working capital has been calculated using 1/8 of O & M and Customer Advances for Construction and Contributions in Aid of Construction reflects actual levels at June 30, 2005. Working capital has been calculated using 1/8 of Operating and Maintenance Expenses. (Settlement paragraph 2).

B. Operating Revenue and Expenses and Revenue Increase – Phase II

- 3 The pro forma present rate revenues are \$1,015,776. The revenue increase for Phase II is stipulated at \$242,420 and is shown on Schedule A. The revenue requirement increase reflects adjustments by the Parties to various components of O & M expenses which include, but are not limited to, purchased power, chemicals, rate case expenses (shared 50/50 between shareholders and ratepayers), management fees, and insurance expense. All other O & M expenses remain at the Phase I level of expense of \$90,875. (Settlement paragraph 3).
- 4 The stipulated revenue requirement increase is \$242,420, which is a 24% increase over current rate revenues of \$1,105,776, and is the level of revenue appropriate to ensure that the Company will continue to provide safe, adequate and proper service to its customers. This revenue increase reflects recognition of the pro forma purchased water expense to be incurred by the Company under its purchased water contract with NJAW. The revenues have been developed utilizing a level of metered consumption which the Parties feel is appropriate in connection with the Nominal Demand as set forth in the purchased water contract by and between the Company and NJAW. (Settlement paragraph 4).
- 5 In accordance with the provisions of the Phase I Stipulation and the Board's Order adopting that Stipulation, a purchase water adjustment clause tariff page was expected to be included in the Phase II tariff. As reflected in paragraph 9 of the Phase I Stipulation, the purpose of establishing such a tariff for the Company was to "ensure the Company's ability to recover sufficient revenues to cover the costs associated with the purchase of water from NJAW as mandated by the DEP Stipulation." During the Phase

¹ Cited paragraphs referenced below are in the settlement documents. This is only a summary, the full settlement documents controls, subject to the Board's findings and conclusions contained herein.

² These elements were set pursuant to the Board's Order dated June 24, 2004.

II discussions which resulted in this Stipulation, it was determined by the Parties that the provisions of the Commodity-Demand Regional Water Sales Agreement (Water Sales Agreement), the terms of which were previously approved by the Board in connection with the NJAW rate proceedings, is not conducive to calculation of a purchased water adjustment clause consumption rate as contemplated by the Board's regulations in N.J.A.C. 14:9-7.1 et seq. (Settlement paragraph 5).

6. The purchased water contract arrangement between the Company and NJAW is unique in nature and, in light of the requirements imposed by the DEP, it would be appropriate to develop a new form of contract between the Company and NJAW. Therefore, the Parties agree that:
 - a. The purchased water charges at issue in this proceeding shall be interim and shall only remain in effect until a new Purchased Water Agreement (PWA) between the Company and NJAW is approved by the Board and becomes effective, with best efforts being made to have a new approved PWA by June 1, 2006. In the event that the actual purchased water costs incurred under the Water Sales Agreement on an annual basis, are less than the amount of \$276,699³ utilized as the annualized purchased water costs component of the \$1,036,163 total annual operating expenses upon which the interim rates have been set (see Schedule A attached hereto), resulting in an over recovery of purchased water costs from the Company's customers, such over recovery will be refunded or credited to customers with interest. In the event that the interim rates are not effective for an entire 12 month period before new rates are set as a result of a new approved PWA, the purchase water costs incurred under the Water Sales Agreement will be pro rated on a daily basis for the purpose of determining any such over recovery.
 - b. The revenue requirement increase stipulated to, herein, in the amount of \$242,420, shall be effective for service until the new PWA is effective, at which time, the Company will submit to the Board Staff and Ratepayer Advocate a revised Tariff that reflects the adjustment to the interim revenue requirement appropriate for the new purchased water costs set forth in the PWA.
 - c. The Parties will make every effort to meet, with representatives from NJAW, as soon as practical after the Board approves the interim rates so that negotiations on a new PWA can be completed as soon as possible and submitted to the Board for approval. The Parties shall report to the Board on the progress of these negotiations if a new PWA has not been submitted for Board approval by March 1, 2006. (Settlement paragraph 6).
7. It is an essential element of this Phase II Stipulation that the Company has the opportunity to implement new rates at the earliest practicable time so that the Company can recover cost associated with purchasing water from NJAW as required by the DEP Stipulation which became effective January 1, 2006. The Parties agree to use their best efforts to cause this matter to be listed on the Board's agenda in a timely fashion so as to enable the Board to consider and decide this case on or before February 1, 2006, or as soon thereafter the Board acts on this matter. (Settlement paragraph 7).

³ The purchased water costs of \$276,699 is reduced to \$242,420 due to the reduction of purchased power and chemical costs, as well as, other elements as outlined in the Board's June 24, 2004 Order.

8. Under the Phase II Stipulation, an average residential customer using 108,000 gallons of water annually will experience an increase from \$412.41 per year to \$511.63 per year, an increase of \$99.22, or \$8.27 per month. The sum of the Phase I and Phase II revenue increase does not exceed the total revenue increase noticed to customers in connection with this proceeding. (Settlement paragraph 10).

III. Discussions and Findings

The Board having reviewed the Stipulation FINDS that the Parties have voluntarily agreed to the Stipulation and that the Stipulation fully disposes of all issues in this proceeding, and is consistent with law. The Board FINDS the Stipulation to be reasonable and in the public interest.

The Board HEREBY ACCEPTS the Stipulation, attached hereto, as its own incorporating by reference the terms and conditions as it fully set forth at length herein, subject to the following:

A. Capital Structure, Rate of Return and Rate Base

- 1 The capital structure shall reflect actual capitalization ratios at June 30, 2005, along with actual debt cost rates at June 30, 2005, with an equity return at 9.75%. The overall rate of return shall be 9.43%.
2. The rate base shall reflect actual plant in service at June 30, 2005, with a depreciation reserve at December 31, 2005. Working capital shall be calculated using 1/8 of O & M and Customer Advances for Construction and Contributions in Aid of Construction shall reflect actual levels at June 30, 2005.

B. Operating Revenue and Expenses and Revenue Increase – Phase II

The pro forma present rate revenues shall be set at \$1,015,776. The revenue increase for Phase II shall be \$242,420. The revenue requirement increase shall reflect adjustments by the Parties to various components of O & M expenses which shall include, but not limited to, purchased power, chemicals, rate case expenses (shared 50/50 between shareholders and ratepayers), management fees and insurance expense. All other O & M expenses shall remain at the level of expense reflected in the Phase I proceeding, which is \$90,875.

- 2 The revenue requirement increase shall be \$242,420 which is a 24% increase over current rate revenues of \$1,105,776, and shall be the level of revenue appropriate to ensure that the Company will continue to provide safe, adequate and proper service to its customers. This revenue increase shall reflect recognition of the pro forma purchased water expense to be incurred by the Company under its purchased water contract with NJAW.
3. In accordance with the provisions of the Phase I Stipulation and the Board's Order adopting that Stipulation, a Purchase Water Adjustment Clause (PWAC) tariff page was expected to be established for the South Jersey so that the Company could recover the costs associated the costs of purchased water from NJAW that the Company is required to make as a result of the DEP Stipulation. During the Phase II settlement discussions, the Parties agreed that the provisions of the NJAW's Commodity-Demand Regional

Water Sales Agreement (Water Sales Agreement) could not be applied to the Company because the DEP Stipulation required that South Jersey purchase of approximately 67% of its water from NJAW, a situation that was not contemplated by the Board was it approved the Water Sales Agreement.⁴ Because of this unique situation, the Parties have agreed to modify the terms of the Phase I stipulation by agreeing not to establish a PWAC at this time. The Parties have further agreed that, for this Petitioner, the best way to address future purchased water costs should be in the context of a base rate case proceeding where all factors affecting the cost of purchased water and other revenue requirement items can be considered. The Board HEREBY ACCEPTS this modification to the Phase I stipulation. However, the Board HEREBY EMPHASIZES that this modification to the stipulation should not be cited as precedent because of the unique facts of this instant matter. The Board prefers that a PWAC be established whenever practicable. The Board therefore HEREBY DIRECTS the Parties to work towards the establishment of PWAC as soon as practicable.

4. Given that the purchased water contract arrangement between the Company and NJAW is a result of the requirements imposed by the DEP, it shall be appropriate to develop a new form of contract between the Company and NJAW. Therefore, to achieve a result that will be fair and equitable to the Company, ratepayers and NJAW and which result will allow for the proper allocation and recovery of costs now and in the future, the Board DIRECTS:

That the purchased water charges at issue in this proceeding shall be interim in nature, and shall only remain in effect until a new Purchased Water Agreement (PWA) between the Company and NJAW is approved by the Board. The Parties are DIRECTED to have a new approved PWA by June 1, 2006. In the event that the actual purchased water costs incurred under the Water Sales Agreement on an annual basis, are less than the amount of \$276,699 utilized as the annualized purchased water costs component of the \$1,036,163 in total annual operating expenses upon which the interim rates have been set, resulting in an over recovery of purchased water costs from the Company's customers, such over recovery shall be refunded or credited to customers with interest. In the event that the interim rates shall not be effective for an entire 12 month period before new rates are set as a result of a new approved PWA, the purchase water costs incurred under the Water Sales Agreement shall be pro rated on a daily basis for the purpose of determining any such over recovery.

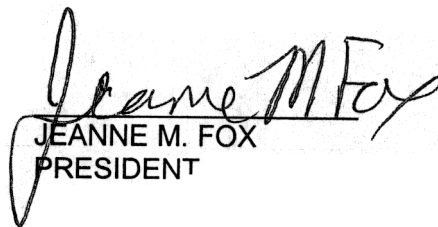
- ii. The revenue requirement increase in the amount of \$242,420 shall be effective for service until the new PWA is effective, at which time the Company shall submit to the Board Staff and Ratepayer Advocate a revised Tariff that reflects the adjustment to the interim revenue requirement appropriate for the new purchased water costs set forth in the PWA.

⁴ The terms the Water Sales Agreement were approved by the Board during NJAW rate proceedings.

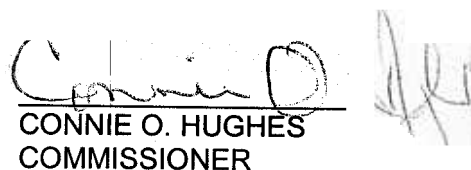
The Board DIRECTS the Company to submit a complete tariff conforming to the terms and conditions of this Order and the stipulation within (10) days from the date of this Order.

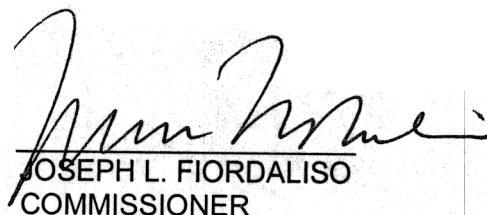
DATED: 2/2/06

BOARD OF PUBLIC UTILITIES
BY:


JEANNE M. FOX
PRESIDENT


FREDERICK F. BUTLER
COMMISSIONER

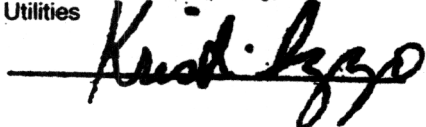

CONNIE O. HUGHES
COMMISSIONER


JOSEPH L. FIORDALISO
COMMISSIONER

ATTEST:


KRISTI IZZO
SECRETARY

I HEREBY CERTIFY that the within
document is a true copy of the original
in the files of the Board of Public
Utilities



In the Matter of the Petition of
South Jersey Water Supply Company, Inc.
For an Increase in Rates for Water Service
BPU Docket No. WR03120979

SERVICE LIST

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STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES

OFFICE OF ADMINISTRATIVE LAW

IN THE MATTER OF THE PETITION OF
SOUTH JERSEY WATER SUPPLY
COMPANY, INC. FOR AN INCREASE IN
RATES FOR WATER SERVICE

BPU DOCKET NO. WR03120979

OAL DOCKET NO. PUCRL00199-2004S

STIPULATION – PHASE II

APPEARANCES

William D. Lavery, Jr., Esq., Cozen O'Connor, on behalf of South Jersey Water Supply Company, Inc., Petitioner;

Alex Moreau and Babette Tenzer, Deputy Attorneys General, (Peter C. Harvey, Attorney General of New Jersey), on behalf of the Staff of the New Jersey Board of Public Utilities;

Susan E. McClure, Esq., Assistant Deputy Ratepayer Advocate, and Maria Novas-Ruiz, Esq., Assistant Deputy Ratepayer Advocate (Seema M. Singh, Esq., Ratepayer Advocate), Division of the Ratepayer Advocate;

BACKGROUND

On December 3, 2003, South Jersey Water Supply Company, Inc. (“Petitioner” or “Company”) filed a Petition with the Board of Public Utilities (“Board”) seeking approval of an increase in rates for water service.

Petitioner serves approximately 2,320 customers in Harrison Township, Gloucester County, New Jersey. As filed, the Company’s initial rate request sought to increase its revenues by \$1,052,378 or 122.05%. The Company subsequently revised its revenue increase request downward to \$589,258, or a total increase of 49.06%. The purpose of the Company’s filing was to request rate relief to recover increased expenditures for construction projects and for increased operating expenses, however, the major driving factor behind the Company’s filing was the New

Jersey Department of Environmental Protection (“NJDEP”) mandate that the Company reduce its reliance on groundwater as a principal source of supply and instead purchase water from the New Jersey-American Water Company, Inc. (“NJAW”). The NJDEP order requiring Petitioner to purchase water from NJAW became effective January , 2006 and the NJDEP order effectively requires Petitioner to purchase approximately 67% of its water supply from NJAW.

Notice of the Company’s filing and of the public hearing to be conducted by ALJ Douglas H. Hurd was accomplished in accordance with the provisions of N.J.A.C. 14:1-5.12. The notice advised customers of the full extent of the Company’s rate request and that the component of the rate request related to the purchase of water from NJAW would not become effective until 2006. A public hearing was held on April 27, 2004, at the Harrison Township Municipal Building and only one member of the public was in attendance. His testimony recognized the need for the rate increase requested by the Company and questioned whether the State of New Jersey had a policy concerning increasing rates for water used for irrigation purposes. No party sought Intervenor or Participant status in this proceeding and no such status has been granted.

After extensive settlement discussions between the Company, the Ratepayer Advocate and Board Staff (the “Parties”), a Phase I rate increase of \$64,615, representing a 6.80% increase over total Company revenues, was agreed to by the Parties. The Board issued an Order adopting the Phase I stipulation of the Parties on June 24, 2005.

A Phase II to address the NJDEP order mandating the purchase of water from NJAW was contemplated by the Parties in their Phase I settlement agreement. The Phase II proceeding was designed to address future water supply costs to be incurred as a result of the NJDEP order requiring a reduction in the Company’s reliance on groundwater sources of supply. Certain other limited rate base and expense items also were to be addressed by the Phase II and the Company

was provided the opportunity to establish a Purchased Water Adjustment Clause tariff page in order to recover future costs associated with the purchase of water from NJAW.

In accordance with the provisions of the Phase I Stipulation, on September 21, 2005, the Company served its Phase II exhibits upon the Division of the Ratepayer Advocate and Board Staff. Notice of the Phase II filing was served upon the Clerk of Harrison Township, the Clerk of the Gloucester County Freeholder Board, the Ratepayer Advocate, the OAL and the Division of Law and Public Safety by certified mail on November 17, 2005. Customers were provided notice of the filing through a Notice of Filing published in the Gloucester County Times on November 20, 2005. The Company requested an overall increase in rates in the amount of \$352,425 or 29.65%.

Following completion of discovery among the Parties, the Parties met at the Board on November 17, 2005, for the purpose of discovery and settlement negotiations. Those settlement discussions continued on October 22, December 12 and December 14, 2005. As a result of the review and analysis of the Phase II exhibits, discovery and negotiation conferences among the Parties, agreement has been reached regarding the matters as set forth in this Phase II Stipulation.

The Phase II Stipulation reflects the increased purchased water costs the Company will incur commencing in January 2006 by virtue of the NJDEP order that the Company purchase water from NJAW. The Phase II Stipulation provides for a Phase II revenue increase in the amount of \$242,420, or an overall percentage increase of 24%. (See Schedule A attached hereto). The undersigned Parties agree to submit the following Stipulation to the Board for adoption. Accordingly, the Parties stipulate and agree as follows:

CAPITAL STRUCTURE, RATE OF RETURN AND RATE BASE

1 The capital structure reflects actual capitalization ratios at June 30, 2005, along with actual debt cost rates at June 30, 2005, with an equity return at 9.75%. The overall rate of return is 9.43%. (See Schedule A attached hereto.)

2 With respect to rate base, the rate base reflects actual plant in service at June 30, 2005, with a depreciation reserve at December 31, 2005. Working capital has been calculated using 1/8 of O&M and customer advances for construction and contributions in aid of construction reflect actual levels at June 30, 2005. Schedule A depicts a rate base figure for Phase II of \$2,354,536.

OPERATING REVENUE AND EXPENSES AND REVENUE INCREASE - PHASE II

3 As a result of negotiations among the Parties, the Parties have agreed that the pro forma present rate revenues are \$1,015,776. Petitioner's revenue increase for Phase II is stipulated at \$242,420 and is also shown on Schedule A. The revenue requirement increase reflects adjustments by the Parties to various components of O&M expenses which include, but are not limited to, purchased power and chemicals, rate case expense (shared 50/50 between shareholders and ratepayers), management fees and insurance expense. All other O&M expenses remain at the level of expense reflected in the Phase I proceeding, which is \$90,875.

4. As stated above, the revenue requirement increase stipulated to herein is \$242,420, which is a 24% increase over current rate revenues of \$1,015,776, and is a level of revenue appropriate to ensure that the Company will continue to provide safe, adequate and proper service to its customers. This revenue increase reflects recognition of the pro forma purchased water expense to be incurred by the Company under its purchased water contract with NJAW. In accordance with the provisions of the Phase I Stipulation, revenues have been

developed utilizing a level of metered consumption which the Parties feel is appropriate in connection with the level of Nominated Demand as set forth in the purchased water contract by and between the Company and NJAW.

5. In accordance with the provisions of the Phase I Stipulation and the Board's Order adopting that Stipulation, a purchased water adjustment clause tariff page was expected to be included in the Phase II tariff. As reflected in paragraph 9 of the Phase I Stipulation, the purpose of establishing such tariff for the Company was to "ensure the Company's ability to recover sufficient revenues to cover the costs associated with the purchase of water from NJAW as mandated by the NJDEP order." During the Phase II discussions which resulted in this Phase II Stipulation, it was determined by the Parties that the provisions of the Commodity-Demand Regional Water Sales Agreement ("Water Sales Agreement"), the terms of which were previously approved by the Board in connection with NJAW rate proceedings, is not conducive to calculation of a purchased water adjustment clause consumption rate as contemplated by the Board's regulations as reflected in N.J.A.C. 4:9-7.1 et seq. This is as a result of the inability to calculate an ongoing base cost of purchased water since the Nominated Demand, selected as a capacity reservation under the Water Sales Agreement, can change from time to time as a result of the impact of weather conditions, beyond the control of the Company or the Board, upon customer consumption patterns. This is particularly true for the Company because of the NJDEP requirement restricting the Company's ability to use its groundwater sources of supply, resulting in the purchase of approximately 67% of its water from NJAW, a situation that was not contemplated when the form of the Water Sales Agreement was approved for NJDEP Critical Area II customers. For this Petitioner, the best way to address future purchased water costs

would be in the context of a base rate case proceeding where all factors affecting the cost of purchased water and other revenue requirement items can be considered.

6. . Given that the purchased water contract arrangement between the Company and NJAW is unique in nature, and in light of the requirements imposed by NJDEP, it would be appropriate to develop a new form of contract between the Company and NJAW. Therefore, to achieve a result that will be fair and equitable to the Company, ratepayers, and NJAW, and which result will allow for the proper allocation and recovery of costs now and in the future, the Parties agree that:

a. The purchased water charges at issue in this proceeding shall be interim and shall only remain in effect until a new Purchased Water Agreement ("PWA") between the Company and NJAW is approved by the Board and becomes effective, with best efforts being made to have a new approved PWA by June 1, 2006. In the event that the actual purchased water costs incurred under the Water Sales Agreement, on an annual basis, are less than the amount of \$276,699 utilized as the annualized purchased water cost component of the \$1,036,163 in total annual operating expenses upon which the interim rates have been set (See Schedule A attached hereto), resulting in an over recovery of purchased water costs from the Company's customers, such over recovery will be refunded or credited to customers with interest. In the event that the interim rates are not effective for an entire 12 month period before new rates are set as a result of a new approved PWA, the purchased water costs incurred under the Water Sales Agreement will be pro rated on a daily basis for the purpose of determining any such over recovery.

b. The revenue requirement increase stipulated to herein, in the amount of \$242,420, shall be effective for service until the new PWA is effective, at which time the Company will submit to the Board Staff and Ratepayer Advocate a revised Tariff that reflects the adjustment to the interim revenue requirement appropriate for the new purchased water costs set forth in the PWA.

c. The Parties will make every effort to meet together, with representatives from NJAW, as soon as practical after the Board approves the interim rates so that negotiations on a new PWA can be completed as soon as possible and submitted to the Board for approval. The Parties shall report to the Board on the progress of these negotiations if a new PWA has not been submitted for Board approval by March 1, 2006.

7. It is an essential element of this Phase II Stipulation that the Company has the opportunity to implement new rates at the earliest practicable time so that it can recover costs associated with purchasing water from NJAW as required by the NJDEP order which became effective January , 2006. In that connection, the Parties agree to use their best efforts to cause this matter to be listed on the Board's agenda in a timely fashion so as to enable the Board to consider and decide this case on or before February 2006, or as soon thereafter as the Board acts on this matter.

8. Attached hereto as Schedule B is a schedule of present and proposed Phase II rates for all classes of service. Attached hereto as Schedule C are the revised tariff pages reflecting the Phase II rates.

9. Under the Phase II Stipulation, an average residential customer using 108,000 gallons of water annually will experience an increase from \$412.41 per year to \$511.63 per year, an increase of \$99.22, or \$8.27 per month. The sum of the Phase I and Phase II revenue

increases does not exceed the total revenue increase noticed to customers in connection with this proceeding.

GENERAL PROVISIONS

10. Except as expressly set forth herein, this Stipulation has been made exclusively for the purpose of this proceeding and the compromises contained herein, in total or by specific are in no way binding upon the Parties in other proceedings before the Board or in other forums or jurisdictions, nor are the contents of this Stipulation, in total or by specific items, by inference, inclusion or deletion, in any way to be considered used by another party as any indication of the position of any party hereto on any issue litigated or to be litigated in other proceedings. If any provisions of this Stipulation are held to be invalid or unenforceable by a court of competent jurisdiction, the remaining provisions of this Stipulation shall remain in full force and effect.

11 The Parties further agree that the purpose of this Stipulation is to reach a fair and reasonable settlement, and that the settlement will serve to avoid protracted and costly litigation of certain issues and that with respect to any policy or other issues which were compromised in the spirit of reaching an agreement, none of the Parties shall be prohibited from or prejudiced in arguing a different policy or position before the Board in any other proceeding, as such agreements pertain only to this matter and to no other matter.

12. This Stipulation contains terms, each of which is interdependent on the others and essential in its own right to the signing of this Stipulation. Each term is vital to the agreement as a whole, since the Parties expressly and jointly state that they might not have signed the agreement had any term been modified by the Board in any way. Each party is entitled to certain procedures in the event that any modifications whatsoever are made to this Stipulation by the

If any modification is made to the terms of this Stipulation by the Board, the signatory

Parties have the right to be placed in the position they were in before entering into the Stipulation. Therefore, if any modification is made to the terms of this Stipulation by the Board, each party has the option, before the implementation of any new rate resulting from this action, either to modify its own position to accept the proposed changes, or to resume the proceeding as if no agreement had been reached. It is also the intent of the signatories to this Stipulation that this settlement, once accepted and approved by the Board, shall govern all issues specified and agreed to herein for the purposes of this proceeding only. The Parties to this Stipulation specifically agree that if adopted in its entirety by the Board, no appeal should be taken by them from the Order adopting same as to those issues upon which the Parties have stipulated. The Parties agree that the within Stipulation reflects a mutual balancing of various issues and positions and is intended to be accepted and approved in its entirety.

COUNTERPARTS

13 This Stipulation may be executed in as many counterparts as there are signatories of this Stipulation, each of which counterpart shall be an original, but all of which shall constitute one and the same instrument.

Dated: Jan. 11, 2006

SOUTH JERSEY WATER SUPPLY COMPANY,
INC.

By: William D. Lavery, Jr.
WILLIAM D. LAVERY, JR., ESQ.
COZEN O'CONNOR

DIVISION OF THE RATEPAYER ADVOCATE
SEEMA M. SINGH, ESQ.
RATEPAYER ADVOCATE

Dated: 1/12/06

By: Susan McClure / CMT
SUSAN E. McCLURE, ASSISTANT
DEPUTY RATEPAYER ADVOCATE

Dated: 1/12/06

PETER C. HARVEY
ATTORNEY GENERAL OF NEW JERSEY,
ATTORNEY FOR THE STAFF OF THE NEW
JERSEY BOARD OF PUBLIC UTILITIES

By: Babette Tenzer
ALEX MOREAU, DEPUTY ATTORNEY
GENERAL
BABETTE TENZER, DEPUTY ATTORNEY
GENERAL

SCHEDULE A
SOUTH JERSEY WATER SUPPLY COMPANY
CALCULATION OF REQUIRED REVENUE INCREASE
FOR PHASE II

<u>Item</u>	<u>Amount</u>
Rate Base	\$2,354,536
Rate of Return (1)	9.43%
Utility Operating Income	222,033
Total Operating Expenses (2)	,036,163
Revenue Requirement	1,258,258
Present Rates Revenues	,015,776
Required Overall Increase	242,420
Overall Percent Increase	23.9%
Miscellaneous & Other Water Revenues (4)	7,112
Present Rates Tariff Revenues	1,008,664
Tariff Revenues Percent Increase	24.0%

(1) Includes Return on Equity of 9.75%

(2) Excludes Depreciation on Contributed Property

(3) Applied Across the Board for Metered, Public Fire Protection and Private Fire Protection Customers

(4) No Change in Miscellaneous & Other Water Revenues

SCHEDULE B
SOUTH JERSEY WATER SUPPLY COMPANY
CALCULATION OF PHASE II TARIFF

Rate Category	Present Rate	Percent Increase	Phase II Rate
Service Charges:			
Quarterly Rates			
5/8" x 3/4"	\$18.08	24.0%	\$22.42
3/4"	27.12	24.0%	33.63
1"	45.20	24.0%	56.05
1-1/2"	90.40	24.0%	112.10
2"	144.64	24.0%	179.36
3"	271.20	24.0%	336.30
4"	452.00	24.0%	560.50
Consumption Charge	3.1490	24.1%	3.9069
Public Fire Service			
Public Hydrant Charge (Quarterly)	\$5.49	24.0%	\$6.80
Inch Foot Charge (Annual)	\$0.0356	24.0%	\$0.044
Private Fire Charges:			
Quarterly Rates			
Private Hydrants	\$5.49	24.0%	\$6.80
2" Service	48.26	24.0%	\$59.86
3" Service	108.59	24.0%	\$134.69
4 " Service	289.43	24.0%	\$359.00
6 " Service	434.41	24.0%	\$538.84
8 " Service	772.00	24.0%	\$957.58

Schedule C
RATE SCHEDULE NO. 1
METERED SERVICE

Page 1 of 5

APPLICABILITY:

Applicable to the use of water supplied through meters for general water service to any customer not otherwise specifically provided for in the Company's rate schedules.

CHARACTER OF SERVICE:

See Standard Terms and Conditions.

RATES:

<u>Consumption Charges*</u>	
Quantity <u>Used in the Quarter</u> All water used	Rate Per <u>1,000 Gallons</u> \$ 3.9069
<u>Quarterly Service Charge</u>	
<u>Size of Meter</u>	<u>Per Quarter</u>
5/8"	\$ 22.42
3/4"	33.63
1"	56.05
1-1/2"	112.10
2"	179.36
3"	336.30
4"	560.50
6"	1,121.00

* The State of New Jersey enacted Ch. 443 of the laws of New Jersey 1983 concerning the periodic testing of public water supplies which established a water tax of \$0.01 per 1,000 gallons of water. This tax is reflected and included in the above rates.

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By: Gary J. Ziegler, President
14 Mill Road, P.O.Box 249
Mullica Hill, NJ 08062

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Docket No. WR03120979, dated February 1, 2006.

Schedule C
RATE SCHEDULE NO. 1
METERED SERVICE (cont.)

Page 2 of 5

TERMS OF PAYMENT:

Net payment within fifteen (15) days of receipt of the bill. Bills for General Metered Service are rendered in arrears once in each calendar quarter. Whenever service to a customer is established or discontinued during a billing period, the fixed service charge will be prorated on a daily basis to the date when service is established or discontinued to such customer.

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Schedule C
RATE SCHEDULE NO. 2
PRIVATE FIRE PROTECTION SERVICE

Page 3 of 5

APPLICABILITY:

Applicable for flat rate Fire Protection Service in the locations where the Company has facilities.

CHARACTER OF SERVICE:

See Standard Terms and Conditions

RATE:

<u>Type of Service</u>	<u>Quarterly Rate</u>
Private Fire Hydrant	\$6.80
2" Private Fire Service Line	59.86
3" Private Fire Service Line	134.69
4" Private Fire Service Line	359.00
6" Private Fire Service Line	538.84
8" Private Fire Service Line	957.58

TERMS OF PAYMENT:

Net payment within fifteen (15) days of receipt of the bill. Bills for Private Fire Protection services are rendered at least once in each calendar quarter. Whenever service to a customer is established or discontinued during a billing period, the private fire protection charge will be prorated on a daily basis to the date when service is established or discontinued to such customer.

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Schedule C
RATE SCHEDULE NO. 2
PRIVATE FIRE PROTECTION SERVICE (cont.)

Page 4 of 5

Certified residential health care facilities and rooming or boarding houses which are required to install private fire sprinkler systems pursuant to P.L. 1971, c. 136 (N.J.S.A. 26: 2H-1, et seq.) and P.L. 1979, c. 496 (N.J.S.A. 55: 13B-1, et seq.) and regulations promulgated under these two (2) statutes, shall be exempt from payment of the private fire protection service charges. Such exemption shall not be granted until the appropriate state agency, either the Department of Community Affairs or the Department of Health, certifies to the Company and to the Board of Public Utilities that the particular residential health care facility or rooming house or boarding house meets the requirements of P.L. 1981 c. 154 and the regulations adopted pursuant thereto and is thereby entitled to the exemption from the private fire sprinkler systems stand-by charge.

The Company shall charge a certified exempt customer for the actual cost of the water main connection (main to curb). Said customer shall be required by the Company to pay for the initial cost of the service line installation, but the Company shall own the line as contributed property and the Company shall be responsible for its maintenance. The service line shall be installed by the utility or its agent. The remainder of the fire sprinkler line (from the curb cock to the building) shall be installed, owned and maintained by the customer and shall conform to reasonable specifications as prescribed by the Company. The Company shall provide, at no cost to the customer, detector check valves.

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Schedule C
RATE SCHEDULE NO. 3
PUBLIC FIRE PROTECTION SERVICE

Page 5 of 5

APPLICABILITY:

Applicable for flat rate fire protection service in the locations where the Company has facilities suitable and adequate for the desired service upon request from the proper authorities.

CHARACTER OF SERVICE:

See Standard Terms and Conditions.

RATE:

The municipality shall pay a hydrant charge of \$ 6.80 per quarter for each hydrant in said municipality, plus an inch-foot charge of \$ 0.0441 per inch-foot per annum, billed quarterly. The amount of inch-feet is calculated by multiplying the nominal pipe diameter in service by the length of pipe of that diameter in feet for all pipe with a diameter of at least four (4) inches.

TERMS OF PAYMENT:

Net payment within fifteen (15) days of receipt of the bill. Bills for Public Fire Protection Service are rendered in arrears once in each calendar quarter for fire hydrants in service for the full quarter.

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